

**Tri County Area Schools
Sand Lake, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

Tri County Area Schools

Sand Lake, Michigan

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June 30, 2008

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Tri County Area Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tri County Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008 on our consideration of Tri County Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope and testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tri County Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 12, 2008

This section of Tri County Area Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Tri County Area Schools, a K-12 school district located in Montcalm County, Kent County, and Newaygo County, Michigan. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Tri County Area Schools' Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Tri County Area Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually, and the Special Revenue Funds, Debt Service Funds and Capital Project Funds collectively as nonmajor governmental funds. The remaining statements, the Statement of Fiduciary Net Assets present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Financial Activities:

The recent good health of the District's finances can be credited to the following innovative approaches during a time of restricted state funding due to a weak economy and significant tax reductions at the state level:

- The continued funding of fund balance designation at the fund financial statement level for future sick day and years of service payouts.
- Utilization of a total cost compensation approach for the negotiation of employee contracts with the district's six employee groups.
- The establishment of energy savings guidelines.
- Cautious usage of the district's financial and material resources.
- The entire district's team approach to improving our district while safeguarding the financial future of the district.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2008.

**Condensed Statement of Net Assets
as of June 30, 2007 and 2008**

	Governmental Activities <u>2007</u>	Governmental Activities <u>2008</u>
Assets		
Current Assets	\$ 8,990,127	\$ 7,919,789
Noncurrent Assets	<u>14,523,370</u>	<u>14,072,869</u>
Total Assets	23,513,497	21,992,658
Liabilities		
Current Liabilities	4,090,759	2,699,695
Long-Term Liabilities	<u>9,833,176</u>	<u>8,932,243</u>
Total Liabilities	13,923,935	11,631,938

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Summary of Net Assets - continued:

**Condensed Statement of Net Assets
as of June 30, 2007 and 2008**

	Governmental Activities <u>2007</u>	Governmental Activities <u>2008</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 4,759,850	\$ 5,065,287
Restricted	358,039	339,091
Unrestricted	<u>4,471,673</u>	<u>4,956,342</u>
Total Net Assets	<u>\$ 9,589,562</u>	<u>\$ 10,360,720</u>

Analysis of Financial Position:

As detailed above, the district shows a positive total net asset value of \$10,360,720 for the fiscal year ended June 30, 2008. This statement has been affected by the following factors:

- Capital assets reduced by a net of \$450,501 due to a greater amount of depreciation of assets than capital outlay purchases.
- Current Assets and Current Liabilities decreased substantially due to the pay off of an outstanding Note at June 30, 2007 against State Aid that was on deposit and paid back during the month of August 2007.
- Retirement of bond and loan principal and other debt activity decreased the districts liabilities by a net \$755,938.
- The district is also providing a HRA and self-funded prescription program to custodial/maintenance and non-union staff. As of June 30, 2008, a balance of \$18,162 existed in this account. However, it is not reflective of the annual cost/savings since the plan is based on the calendar year not the district's fiscal year.
- The change in net assets increased \$771,158 due to a combination of paying off long-term debt and carefully monitoring spending during uncertain state funding periods.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Results of Operations:

For the fiscal year ended June 30, 2007 and 2008, the District-wide results of operations were:

**Condensed Statement of Activities
Year Ended June 30, 2007 and 2008**

	Governmental Activities <u>2007</u>	Governmental Activities <u>2008</u>
Revenues:		
Program Revenues		
Charges for Services	\$ 553,408	\$ 555,486
Operating and Capital Grants	1,855,824	1,862,861
General Revenues		
Property Taxes	3,063,815	3,154,017
State School Aid-unrestricted	14,804,589	15,184,138
Other	<u>588,327</u>	<u>564,742</u>
Total Revenues	20,865,963	21,321,244
Functions/Program Expenses:		
Instruction	11,658,410	12,262,162
Supporting services	6,059,646	6,177,050
Community services	21,933	22,720
Food service	667,270	741,119
Athletics	361,734	367,245
Interest on long-term debt	408,897	395,499
Other	109,289	-
Unallocated depreciation	<u>581,422</u>	<u>584,291</u>
Total Expenses	<u>19,868,601</u>	<u>20,550,086</u>
Increase in Net Assets	<u>\$ 997,332</u>	<u>\$ 771,158</u>

Analysis of Results of Operations:

During fiscal year ended June 30, 2008 the district's net assets increased by \$771,158. Several factors that helped cause the increase are discussed in the following sections.

A. Governmental Fund Operating Results

The District's revenues from governmental fund operations exceeded expenditures by \$512,290 for the fiscal year ended June 30, 2008. Further discussion of the district's operating results is available in the section entitled "Results of 2007-2008 Operations" located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2007-08, district assets depreciated in the amount of \$584,291, causing a reduction in net district assets.

C. Long-Term Debt Activities

The district reduced its long-term debt obligation during 2007-2008 by making principal payments and having other debt activity amounting to \$755,938. Accrued compensated absences decreased by a net \$64,695.

Results of 2007-2008 Operations

During fiscal year ended June 30, 2008, the District net assets increased by \$771,158 at the District-wide level. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the district and includes all the costs related to educating the students of the Tri County Area Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Accounting Staff, Custodial/Maintenance Staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's revenues from General Fund operations exceeded expenditures by \$325,950 for the fiscal year ended June 30, 2008. The General Fund as of June 30, 2008, has a fund balance of \$4,424,194 or 23.24% of expenditures and other financing uses for the 2007-2008 fiscal year. It is essential for the district to maintain an appropriate fund balance to insure adequate cash flow through out the year. The district levies operational taxes December 1 which is five months after the beginning of the fiscal year. Many of the savings made throughout the district are a result of efficient uses of the district's resources by all employees.

B. Debt Service Fund Operations

The Debt Service Funds consist of three separate debt funds as follows: 1999 Debt, 2003 Bond Refunding, and 2005 Bond Refunding. The Debt Service Funds are set up to collect taxes and pay annual debt payments. At June 30, 2008, the Debt Service Funds had \$414,603 in fund equity available for future bond payments.

The District also had Durant resolution bonds and compensated absences outstanding at June 30, 2008, which totaled \$91,334 and \$808,191, respectively.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

The District has the following principal balance on bonded long-term debt obligations:

	Principal Balance <u>June 30, 2008</u>
1999 Debt Bonds	\$ 190,000
2003 Refunding Bonds	6,160,000
2005 Refunding Bonds	<u>2,735,000</u>
 Total long-term bond obligations	 <u>\$ 9,085,000</u>

C. School Service Funds

The Tri County Area Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2007-2008 the Food Service Fund had revenues of \$737,654 and expenditures of \$767,590. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$81,850. The fund balance decreased \$29,936 due to the purchase of a new point of sale system to improve communication internally but more importantly externally to parents.

The Athletics Fund includes costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation and Indirect costs are accounted for in the Athletic Fund. In 2007-2008 the Athletics Fund had revenues and other financing sources of \$366,825 and expenditures of \$366,970. The Athletics Fund generated \$83,825 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must have a balanced budget and the District contributed \$283,000 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$7,188.

D. Net Investment in Capital Assets

The district's net investment in capital assets decreased by \$450,501 during the fiscal year. This can be summarized as follows:

	Balance <u>June 30, 2007</u>	Net <u>Change</u>	Balance <u>June 30, 2008</u>
Capital assets	\$ 23,411,575	\$ 74,710	\$ 23,486,285
Less: accumulated depreciation	(8,888,205)	(525,211)	(9,413,416)
 Net investment in capital outlay	 <u>\$ 14,523,370</u>	 <u>\$(450,501)</u>	 <u>\$ 14,072,869</u>

A bus was disposed of during the 2007-08 year. The district also added two busses and classroom furniture during 2007-08 year.

IMPORTANT ECONOMIC FACTORS**A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Tri County Area Schools foundation allowance was \$7,204 per student for the 2007-2008 school year. Due to the voters approval of the headlee rollback override the district received the entire \$7,204 per student.

C. Student Enrollment

The District's student enrollment for the fall count of 2007-2008 was 2,468.44 students. The District's enrollment has been slightly increasing for the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2007-2008	2,468	36
2006-2007	2,432	21
2005-2006	2,411	53
2004-2005	2,358	3
2003-2004	2,355	(10)
2002-2003	2,365	0

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levied 18.0000 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2007-2008 fiscal year was \$2,039,979. The non-homestead tax levied revenue increased by 4.7% over the prior year.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2007-2008 the District's debt millage levy was 2.9738 mills, a decrease of 6.3%, which generated revenue of \$1,113,745.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2007-2008	\$19,083,140	\$19,289,760	\$19,033,930	0.3%	1.3%
2006-2007	\$18,664,650	\$18,802,020	\$18,575,852	0.5%	1.2%

General Fund Revenues and Other Sources, Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2007-2008	\$18,657,080	\$19,359,930	\$19,359,880	3.8%	0.0%
2006-2007	\$19,005,200	\$18,841,690	\$18,924,800	(0.4%)	0.4%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Tri County Area Schools amends its budget periodically during the school year. The June 30, 2008 budget amendment was the final budget for the fiscal year.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 19,083,140	100.0
Total Expenditures Final Budget	<u>19,289,760</u>	<u>101.1</u>
Increase in Budget Expenditures	\$ <u>206,620</u>	<u>1.1</u>

The District's actual expenditures were less than the final budget by \$255,830 or 1.3 percent.

Some of the significant changes in expenditure budgets for the year include:

- Increase in instructional supplies and textbooks
- Changes in staffing needs due to special education student needs.
- Purchase of two used busses

Revenue Change from Original to Final Budget:

		<u>Percent</u>
Total Revenues Original Budget	\$ 18,657,080	100.0
Total Revenues Final Budget	<u>19,359,930</u>	<u>103.8</u>
Decrease in Budget Revenues	<u>\$ 702,850</u>	<u>3.8</u>

The District's final actual general fund revenues were greater than the final budget by \$50, a variance of 0.001% from the final budget.

The Final revenue budget reflects the following changes from the Original Budget.

- Local sources increased by \$28,460 due to increased revenues from property values, charges for service, and transportation fees however interest income decreased.
- State aid increased by \$493,570 due to changes in the foundation allowance and increase in student enrollment.
- Special Education revenue increased by \$93,190 from the county due to additional funding from the Intermediate School District.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 80 percent to 85 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count will be similar to the estimates used in creating the 2008 fiscal year final budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact Tamera L. Powers, Business Manager, Tri County Area Schools, 94 Cherry Street, Sand Lake, Michigan 49343.

BASIC FINANCIAL STATEMENTS

Tri County Area Schools

STATEMENT OF NET ASSETS

June 30, 2008

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 4,619,135
Accounts receivable	42,366
Prepays	11,407
Due from other governmental units	3,114,827
Inventory	<u>132,054</u>
Total current assets	7,919,789
Noncurrent assets	
Capital assets not being depreciated	756,211
Capital assets, net of accumulated depreciation	<u>13,316,658</u>
Total noncurrent assets	<u>14,072,869</u>
TOTAL ASSETS	21,992,658
LIABILITIES	
Current liabilities	
Accounts payable	61,822
Accrued payroll	967,628
Accrued interest payable	57,387
Other accrued liabilities	617,847
Due to other governmental units	85,722
Unearned revenue	7,634
Current portion of compensated absences	98,984
Current portion of long-term debt	<u>802,671</u>
Total current liabilities	2,699,695
Noncurrent liabilities	
Noncurrent portion of accrued interest payable	18,125
Noncurrent portion of compensated absences	709,207
Noncurrent portion of long-term debt	<u>8,204,911</u>
Total noncurrent liabilities	<u>8,932,243</u>
TOTAL LIABILITIES	11,631,938
NET ASSETS	
Invested in capital assets, net of related debt	5,065,287
Restricted for debt service	339,091
Unrestricted	<u>4,956,342</u>
TOTAL NET ASSETS	\$ 10,360,720

See accompanying notes to financial statements.

Tri County Area Schools
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Governmental Activities	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenues and
		Services	Grants	Changes in
				Net Assets
Functions/Programs				Governmental
				Activities
Instruction	\$ 12,262,162	\$ 117,805	\$ 1,420,707	\$ (10,723,650)
Supporting services	6,177,050	28,088	4,277	(6,144,685)
Community services	22,720	30,236	-	7,516
Food services	741,119	295,625	437,877	(7,617)
Athletics	367,245	83,732	-	(283,513)
Interest on long-term debt	395,499	-	-	(395,499)
Unallocated depreciation	584,291	-	-	(584,291)
TOTAL EXPENSES	\$ 20,550,086	\$ 555,486	\$ 1,862,861	(18,131,739)
General Revenues				
Property taxes				3,154,017
State school aid - unrestricted				15,184,138
Special Education county allocation				300,205
Investment earnings				133,614
Miscellaneous				130,923
TOTAL GENERAL REVENUES				18,902,897
CHANGE IN NET ASSETS				771,158
Net assets, beginning of year				9,589,562
Net assets, end of year				\$ 10,360,720

See accompanying notes to financial statements

Tri County Area Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 3,301,425	\$ 729,637	\$ 4,031,062
Accounts receivable	42,366	-	42,366
Prepays	11,407	-	11,407
Due from other funds	-	260,000	260,000
Due from other governmental units	3,106,995	7,832	3,114,827
Inventory	118,386	13,668	132,054
TOTAL ASSETS	\$ 6,580,579	\$ 1,011,137	\$ 7,591,716
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 26,795	\$ 13,237	\$ 40,032
Accrued payroll	967,628	-	967,628
Other accrued liabilities	617,847	-	617,847
Due to other funds	457,218	15,044	472,262
Due to other governmental units	85,722	-	85,722
Deferred revenue	1,175	6,459	7,634
TOTAL LIABILITIES	2,156,385	34,740	2,191,125
FUND BALANCES			
Reserved for			
Inventory and prepaids	129,793	13,668	143,461
Debt service	-	414,603	414,603
Unreserved			
Undesignated, reported in:			
General fund	4,294,401	-	4,294,401
Special revenue funds	-	75,370	75,370
Capital project funds	-	472,756	472,756
TOTAL FUND BALANCES	4,424,194	976,397	5,400,591
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,580,579	\$ 1,011,137	\$ 7,591,716

See accompanying notes to financial statements.

Tri County Area Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 5,400,591

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 23,486,285	
Accumulated depreciation is	<u>(9,413,416)</u>	
		14,072,869

Internal Service Funds are used by management to charge the costs of certain activities
to individual funds. The assets and liabilities of the Internal Service Funds are included
in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds		18,162
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Governmental funds report the difference between the carrying amount of the defeased debt
and its reacquisition price when debt is first issued, whereas these amounts are deferred and
amortized in the Statement of Net Assets. These amounts consist of:

Unamortized defeased debt		168,752
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Long-term liabilities that are not included in a proprietary fund at the fund level and are
not due and payable in the current period are not reported as liabilities in the funds
The applicable long-term liabilities at year-end consist of

Bonds and loans payable	9,176,334	
Accrued interest payable	75,512	
Applicable portion of compensated absences	<u>47,808</u>	
		<u>(9,299,654)</u>

Net assets of governmental activities		<u>\$ 10,360,720</u>
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See accompanying notes to financial statements.

Tri County Area Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 2,341,284	\$ 1,523,486	\$ 3,864,770
State sources	16,236,144	23,738	16,259,882
Federal sources	367,978	414,140	782,118
TOTAL REVENUES	18,945,406	1,961,364	20,906,770
EXPENDITURES			
Current			
Instruction	12,219,324	-	12,219,324
Supporting services	6,239,939	-	6,239,939
Community services	22,703	-	22,703
Facility services	8,887	-	8,887
Food service activities	-	740,563	740,563
Athletic activities	-	366,970	366,970
Capital outlay	-	57,330	57,330
Debt service			
Principal retirement	-	770,000	770,000
Interest, fiscal and other charges	-	383,161	383,161
TOTAL EXPENDITURES	18,490,853	2,318,024	20,808,877
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	454,553	(356,660)	97,893
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	543,000	543,000
County sources	305,205	-	305,205
Other transactions	109,269	-	109,269
Transfers to other funds	(543,000)	-	(543,000)
Other	(77)	-	(77)
TOTAL OTHER FINANCING SOURCES (USES)	(128,603)	543,000	414,397
NET CHANGE IN FUND BALANCES	325,950	186,340	512,290
Fund balances, beginning of year	4,098,244	790,057	4,888,301
Fund balances, end of year	\$ 4,424,194	\$ 976,397	\$ 5,400,591

See accompanying notes to financial statements.

Tri County Area Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ 512,290

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 133,790	
Depreciation expense	<u>(584,291)</u>	
Excess of depreciation expense over capital outlay		(450,501)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Net expense from governmental activities accounted for in Internal Service Funds		(33,581)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Bond and loan principal retirement	770,000	
Amortization of deferred amounts on debt refunding	<u>(14,062)</u>	
		755,938

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	1,724	
Change in governmental activities reporting of compensated absences	<u>(14,712)</u>	
		(12,988)

Change in net assets of governmental activities	\$ <u>771,158</u>
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See accompanying notes to financial statements.

Tri County Area Schools
Proprietary Funds - Internal Service Funds

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 588,073
Due from other funds	<u>212,262</u>
TOTAL ASSETS	800,335
LIABILITIES	
Current liabilities	
Accounts payable	21,790
Compensated absences	<u>98,984</u>
Total current liabilities	120,774
Noncurrent liabilities	
Compensated absences	<u>661,399</u>
TOTAL LIABILITIES	<u>782,173</u>
NET ASSETS	
Unrestricted	<u><u>\$ 18,162</u></u>

See accompanying notes to financial statements.

Tri County Area Schools

Proprietary Funds - Internal Service Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS

Year Ended June 30, 2008

	<u>Governmental Activities</u>
OPERATING REVENUES	
Charges for services	\$ 172,095
OPERATING EXPENSES	
Fringe benefits	<u>221,487</u>
OPERATING LOSS	(49,392)
NONOPERATING REVENUES	
Interest revenue	<u>15,811</u>
CHANGE IN NET ASSETS	(33,581)
Net assets, beginning of year	<u>51,743</u>
Net assets, end of year	<u><u>\$ 18,162</u></u>

See accompanying notes to financial statements.

Tri County Area Schools

Proprietary Funds - Internal Service Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	Governmental Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 172,095
Cash received from other funds	18,415
Cash paid for employees and retiree benefits	<u>(207,834)</u>
NET CASH USED BY OPERATING ACTIVITIES	(17,324)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	<u>15,811</u>
NET DECREASE IN CASH	(1,513)
Cash, beginning of year	<u>589,586</u>
Cash, end of year	<u><u>\$ 588,073</u></u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (49,392)
Adjustments to reconcile operating (loss) to cash used by operating activities	
(Decrease) in accounts payable	(321)
Decrease in due from other funds	111,796
(Decrease) in compensated absences	<u>(79,407)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (17,324)</u></u>

See accompanying notes to financial statements.

Tri County Area Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Agency Fund
ASSETS	
Cash	<u>\$ 153,368</u>
LIABILITIES	
Due to student groups	<u>\$ 153,368</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Tri County Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Tri County Area Schools (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation and Measurement Focus

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The district-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

3. Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Proprietary Funds are charges to customers for sales and services. Operating expenses for proprietary funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Six (6) supplemental appropriations were made during the year with the last approved June 30, 2008.

5. Cash

Cash consist of checking and savings accounts.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The General Fund inventory consists of office and transportation supplies. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2008 to be paid in July and August 2008. Of the total amount of \$3,114,827 due from other governmental units, \$2,943,532 consists of State Aid and the remaining \$171,295 from other governmental grants.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**9. Capital Assets**

Capital assets include land, buildings and improvements, furniture and equipment, and buses and other vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 except for new computers, printers, data projectors and televisions which have no cost threshold and all new classrooms (recorded at total content cost) and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	20 - 50 years
Buses and other vehicles	8 years
Furniture and equipment	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the Internal Service (Retirement Payout) Fund and in the district-wide financial statements. The liability for accumulated vested vacation amounts are recorded as a liability in the district-wide financial statements.

11. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution Bonds that were due May 15, 2003 through May 15, 2005 and May 15, 2007 through May 15, 2008 and a portion of May 15, 2009 is shown as a noncurrent liability due to the State of Michigan deferring payments during this time period until May 15, 2013. Normal payments on the Durant Bonds will resume in 2009.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$2.9738 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in September 2007 and February 2007. The average calculation was weighted 75% for the September 2007 count and 25% for the February 2007 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payment made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

16. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

17. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the District's deposits was \$4,772,503 and the bank balance was \$5,084,958, of which \$426,160 was covered by federal depository insurance. The balance of \$4,658,798 was uninsured and uncollateralized.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH - CONTINUED

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer broker or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

As of June 30, 2008, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash	<u>\$ 4,619,135</u>	<u>\$ 153,368</u>	<u>\$ 4,772,503</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Capital assets not being depreciated				
Land	\$ 756,211	\$ -	\$ -	\$ 756,211
Capital assets being depreciated				
Buildings and improvements	19,868,526	24,390	-	19,892,916
Buses and other vehicles	1,566,922	109,400	(59,080)	1,617,242
Furniture and equipment	<u>1,219,916</u>	<u>-</u>	<u>-</u>	<u>1,219,916</u>
Subtotal	22,655,364	133,790	(59,080)	22,730,074
Less accumulated depreciation for:				
Buildings and improvements	(6,926,576)	(419,695)	-	(7,346,271)
Buses and other vehicles	(1,173,876)	(94,951)	59,080	(1,209,747)
Furniture and equipment	<u>(787,753)</u>	<u>(69,645)</u>	<u>-</u>	<u>(857,398)</u>
Subtotal	<u>(8,888,205)</u>	<u>(584,291)</u>	<u>59,080</u>	<u>(9,413,416)</u>
Net capital assets being depreciated	<u>13,767,159</u>	<u>(450,501)</u>	<u>-0-</u>	<u>13,316,658</u>
Capital assets, net	<u>\$14,523,370</u>	<u>\$ (450,501)</u>	<u>\$ -0-</u>	<u>\$14,072,869</u>

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE C: CAPITAL ASSETS - CONTINUED

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008 are as follows:

Due to nonmajor governmental funds from:	
General fund	\$ <u>260,000</u>
Due to internal service fund from:	
General fund	\$ 197,218
Nonmajor governmental funds	<u>15,044</u>
	\$ <u>212,262</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General fund	\$ <u>543,000</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2008.

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>	Amounts Due Within <u>One Year</u>
Bonded Debt	\$ 9,946,334	\$ -	\$ 770,000	\$ 9,176,334	\$ 788,609
Compensated Absences	815,865	-	106,658	709,207	-
Post-Employment Compensated Absences	<u>57,021</u>	<u>90,674</u>	<u>48,711</u>	<u>98,984</u>	<u>98,984</u>
	10,819,220	90,674	925,369	9,984,525	887,593
Less: deferred amounts on refunding	<u>182,814</u>	<u>-</u>	<u>14,062</u>	<u>168,752</u>	<u>14,062</u>
	<u>\$10,636,406</u>	<u>\$ 90,674</u>	<u>\$ 911,307</u>	<u>\$ 9,815,773</u>	<u>\$ 901,655</u>

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

Advanced Refunding - Prior

On April 19, 2005 the District defeased a portion of the 1999 School Building and Site General Obligation Bonds, which are due and payable May 1, 2010 through May 1, 2020. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2005 Refunding Bonds in the amount of \$2,770,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay a portion of the remaining balances of the 1999 School Building and Site General Obligation Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2008, bonds due and payable May 1, 2010 through May 1, 2020 for 1999 School Building and Site General Obligation Bonds in the amount of \$2,650,000 are considered defeased.

On March 18, 2003 the District defeased the portion of the 1993 School Building and Site Bonds which are due and payable May 1, 2003 through May 1, 2020. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2003 Refunding Bonds in the amount of \$9,140,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2008, bonds due and payable May 1, 2009 through May 1, 2020 for the 1995 School Building and Site Bonds in the amount of \$6,275,000 are considered defeased.

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2008:

\$3,680,000 School Building and Site General Obligation Bonds dated June 17, 1999, due in an annual installment of \$190,000 on May 1, 2009 with interest of 4.70 percent, payable semi-annually.	\$ 190,000
\$9,140,000 Refunding Bonds dated March 18, 2003, due in annual installments ranging from \$325,000 to \$585,000 through May 1, 2020 with interest ranging from 3.20 to 4.15 percent, payable semi-annually.	6,160,000
\$2,770,000 Refunding Bonds dated April 19, 2005, due in annual installments ranging from \$15,000 to \$265,000 through May 1, 2020 with interest ranging from 3.20 to 4.15 percent, payable semi-annually.	<u>2,735,000</u>
	9,085,000

Resolution Bonds

\$154,683 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$7,842 to \$37,384 with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The annual debt payment has been suspended for two (2) years. The next payment will be paid May 15, 2009.	<u>91,334</u>
	<u>\$ 9,176,334</u>

Compensated Absences - These amounts consist of severance pay amounts, unused vacation, and amounts agreed to be paid as post-employment compensated absences per various agreements. Severance pay is the largest component of compensated absences and is detailed below. The other components are based on other agreements and are detailed there.

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

Severance Pay - In recognition of services to the District, a severance payment is made to eligible teachers and administrators with at least fifteen (15) years of service, and to eligible support staff with at least 5 years of continuous service according to their respective employment contracts as follows:

Teachers and Administrators hired before 1987

Eligible teachers and administrators will be paid one-half of the unused days at a daily rate of pay as of the day of retirement with no limit.

Administrators hired after 1987

Eligible administrators will be paid up to a maximum of 30 years at a rate of \$100 per year of service.

Teachers hired after 1987

Eligible teachers will be paid a lump sum payment of 2/3's of the short term substitute teacher daily rate for each unused personal illness day credited to their account.

Support staff

Eligible employees will be paid one-half of unused hours up to a maximum of one hundred and twenty days of accumulated sick leave at the hourly rate of pay upon retirement.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2008 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued compensated absences and related payroll taxes as of June 30, 2008, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested</u> <u>Employees</u>	<u>Nonvested</u> <u>Employees</u>	<u>Total</u>
Compensated absences	\$ 713,768	\$ 36,990	\$ 750,758
Payroll taxes	<u>54,603</u>	<u>2,830</u>	<u>57,433</u>
	<u>\$ 768,371</u>	<u>\$ 39,820</u>	<u>\$ 808,191</u>

The entire liability, except for \$47,808 related to vacation payable, is recorded as a liability in the Internal Service Fund.

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 8,609	\$ 2,254	\$ 780,000	\$ 342,634
2010	9,018	1,844	805,000	314,536
2011	9,448	1,415	805,000	198,516
2012	9,897	965	790,000	260,496
2013	54,362	18,619	790,000	227,639
2014-2018	-	-	3,795,000	721,101
2019-2020	-	-	1,320,000	79,033
	<u>\$ 91,334</u>	<u>\$ 25,097</u>	<u>\$ 9,085,000</u>	<u>\$ 2,143,955</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Tri County Area Schools in the future.

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2007, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2008 was \$10,988,956 of which \$8,985,579 was for members who have elected the MIP option; the District's total payroll was \$11,117,806.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2007 to September 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. For the period of October 1, 2007 to June 30, 2008, the District was required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008 and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2008	\$ 352,690	\$ 1,862,911	\$ 2,215,601
2007	337,347	1,867,941	2,205,288
2006	319,221	1,638,091	1,957,312

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2008	4.0 %	17.0 %
2007	4.0	17.4
2006	4.0	16.0

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2008:

General Fund	
Reserved for inventory and prepaids	\$ 129,793
Nonmajor governmental funds	
Food service	
Reserved for inventory	13,668

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

1999 Debt	
Reserved for debt service	\$ 42,689
2003 Debt Refunding	
Reserved for debt service	288,532
2005 Bond Refunding	
Reserved for debt service	<u>83,402</u>
	<u>414,603</u>
	<u>\$ 558,064</u>

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2008:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Debt service	\$ 339,091

NOTE J: FLEXIBLE BENEFITS PLAN

In December 2002 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all eligible employees, who meet the eligibility requirements as set by the plan, permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments, medical expense reimbursement benefits, or dependent care benefits. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by BASIC.

NOTE K: RISK MANAGEMENT

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, boiler and machinery, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Tri County Area Schools, a nonplaintiff District, was awarded \$309,366 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

REQUIRED SUPPLEMENTARY INFORMATION

Tri County Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 2,310,200	\$ 2,338,660	\$ 2,341,284	\$ 2,624
State sources	15,742,520	16,236,090	16,236,144	54
Federal sources	305,000	367,970	367,978	8
TOTAL REVENUES	18,357,720	18,942,720	18,945,406	2,686
EXPENDITURES				
Current				
Instruction				
Basic needs	10,285,310	10,365,880	10,307,894	57,986
Added needs	1,902,710	1,924,350	1,911,430	12,920
Total instruction	12,188,020	12,290,230	12,219,324	70,906
Supporting services				
Pupil	919,950	901,580	882,847	18,733
Instructional staff	464,650	435,100	427,791	7,309
General administration	313,710	324,220	306,779	17,441
School administration	1,190,520	1,214,370	1,197,499	16,871
Business services	514,270	410,040	401,957	8,083
Pupil transportation	1,056,510	1,212,360	1,188,521	23,839
Operations and maintenance	1,765,840	1,774,810	1,708,539	66,271
Support services technology	123,070	130,350	126,006	4,344
Total supporting services	6,348,520	6,402,830	6,239,939	162,891
Community services	21,080	22,920	22,703	217
Facilities services	30,190	11,780	8,887	2,893
TOTAL EXPENDITURES	18,587,810	18,727,760	18,490,853	236,907
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(230,090)	214,960	454,553	239,593

Tri County Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
County special education allocation	\$ 207,000	\$ 305,190	\$ 305,205	\$ 15
Other transactions	92,360	112,020	109,269	(2,751)
Transfers to other funds	(377,330)	(543,000)	(543,000)	-0-
Other	(118,000)	(19,000)	(77)	18,923
TOTAL OTHER FINANCING SOURCES (USES)	(195,970)	(144,790)	(128,603)	16,187
NET CHANGE IN FUND BALANCE	(426,060)	70,170	325,950	255,780
Fund balance, beginning of year	4,098,244	4,098,244	4,098,244	-0-
Fund balance, end of year	<u>\$ 3,672,184</u>	<u>\$ 4,168,414</u>	<u>\$ 4,424,194</u>	<u>\$ 255,780</u>

Tri County Area Schools

General Fund

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
LOCAL SOURCES				
Property taxes	\$ 2,032,120	\$ 2,039,950	\$ 2,039,979	\$ 29
Tuition	113,980	117,810	117,805	(5)
Transportation fees	10,700	27,810	28,088	278
Interest	120,000	101,290	103,521	2,231
Rentals	4,000	4,560	4,566	6
Charges for services	26,400	30,160	30,236	76
Contributions from private sources	1,000	1,500	1,500	-0-
Other local revenue	2,000	15,580	15,589	9
TOTAL LOCAL SOURCES	2,310,200	2,338,660	2,341,284	2,624
STATE SOURCES				
State aid unrestricted	14,723,450	15,184,110	15,184,138	28
State aid restricted	1,017,970	1,050,220	1,050,249	29
State aid restricted through local district	1,100	1,760	1,757	(3)
TOTAL STATE SOURCES	15,742,520	16,236,090	16,236,144	54
FEDERAL SOURCES				
Federal received through the State	300,000	364,670	364,688	18
Federal received through other districts	5,000	3,300	3,290	(10)
TOTAL FEDERAL SOURCES	305,000	367,970	367,978	8
OTHER FINANCING SOURCES				
County sources	207,000	305,190	305,205	15
Other transactions	92,360	112,020	109,269	(2,751)
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 18,657,080	\$ 19,359,930	\$ 19,359,880	\$ (50)

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
INSTRUCTION				
Basic needs				
Elementary				
Salaries	\$ 3,123,430	\$ 3,129,150	\$ 3,128,317	\$ 833
Benefits	1,469,470	1,578,030	1,567,837	10,193
Purchased services	61,400	85,950	83,963	1,987
Supplies, materials, and other	331,890	194,540	174,605	19,935
Capital outlay	3,460	18,200	16,127	2,073
Total elementary	4,989,650	5,005,870	4,970,849	35,021
Middle school				
Salaries	1,517,460	1,496,900	1,496,183	717
Benefits	769,000	763,910	761,831	2,079
Purchased services	35,000	35,220	33,518	1,702
Supplies, materials, and other	94,410	89,310	89,490	(180)
Capital outlay	-	19,170	18,782	388
Total middle school	2,415,870	2,404,510	2,399,804	4,706
High school				
Salaries	1,635,200	1,618,970	1,617,367	1,603
Benefits	780,070	777,470	774,070	3,400
Purchased services	81,000	108,200	108,158	42
Supplies, materials, and other	219,360	247,490	239,617	7,873
Capital outlay	5,400	14,630	13,251	1,379
Total high school	2,721,030	2,766,760	2,752,463	14,297
Pre-school instruction				
Salaries	98,940	99,990	99,979	11
Benefits	55,440	73,100	70,291	2,809
Supplies, materials, and other	3,880	10,360	9,372	988
Capital outlay	500	2,500	2,391	109
Total pre-school instruction	158,760	185,950	182,033	3,917
Summer school				
Salaries	-	2,200	2,193	7
Benefits	-	590	552	38
Total summer school	-0-	2,790	2,745	45
Total basic needs	10,285,310	10,365,880	10,307,894	57,986

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
INSTRUCTION - CONTINUED				
Added needs				
Special education				
Salaries	\$ 962,150	\$ 955,990	\$ 955,614	\$ 376
Benefits	469,580	467,970	461,084	6,886
Purchased services	26,350	39,670	36,469	3,201
Supplies, materials, and other	14,020	12,790	11,950	840
Total special education	1,472,100	1,476,420	1,465,117	11,303
Compensatory education				
Salaries	295,980	293,360	292,884	476
Benefits	131,590	141,430	140,854	576
Purchased services	1,400	1,200	875	325
Supplies, materials, and other	1,650	11,800	11,700	100
Capital outlay	-	140	-	140
Total compensatory education	430,620	447,930	446,313	1,617
Total added needs	1,902,710	1,924,350	1,911,430	12,920
TOTAL INSTRUCTION	12,188,020	12,290,230	12,219,324	70,906
SUPPORTING SERVICES				
Pupil services				
Guidance services				
Salaries	182,250	161,760	156,453	5,307
Benefits	82,100	76,550	69,587	6,963
Total guidance services	264,350	238,310	226,040	12,270
Health services				
Salaries	23,990	25,260	25,248	12
Benefits	5,970	6,320	6,230	90
Purchased services	-	1,200	437	763
Supplies, materials, and other	500	730	708	22
Total health services	30,460	33,510	32,623	887
Social services				
Salaries	174,780	171,950	171,849	101
Benefits	84,580	86,280	83,487	2,793
Purchased services	350	350	163	187
Supplies, materials, and other	790	1,300	813	487
Total social services	260,500	259,880	256,312	3,568

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
SUPPORTING SERVICES - CONTINUED				
Pupil services - continued				
Psychologist services				
Salaries	\$ 64,300	\$ 65,980	\$ 65,925	\$ 55
Benefits	24,550	33,120	32,980	140
Purchased services	930	1,130	1,080	50
Supplies, materials, and other	400	750	400	350
Total psychologist service	90,180	100,980	100,385	595
Speech pathology				
Salaries	107,610	127,280	127,256	24
Benefits	54,120	59,350	59,026	324
Purchased services	39,160	20,000	19,585	415
Supplies, materials, and other	1,230	1,280	790	490
Total speech pathology	202,120	207,910	206,657	1,253
Special education consultant				
Salaries	5,730	-	-	-
Benefits	2,810	-	-	-
Total special education consultant	8,540	-0-	-0-	-0-
Monitors				
Salaries	45,850	43,080	43,062	18
Benefits	17,940	17,910	17,768	142
Total monitors	63,790	60,990	60,830	160
Total pupil services	919,950	901,580	882,847	18,733
Instructional staff				
Improvement of instruction				
Salaries	-	8,250	5,906	344
Benefits	-	1,680	1,340	340
Purchased services	80,000	67,770	63,305	4,465
Supplies, materials, and other	-	1,660	1,610	50
Total improvement of instruction	80,000	77,360	72,161	5,199

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
SUPPORTING SERVICES - CONTINUED				
Library				
Salaries	\$ 121,120	\$ 89,040	\$ 89,029	\$ 11
Benefits	48,250	38,130	37,811	519
Supplies, materials, and other	11,200	12,760	11,825	935
Capital outlay	-	-	-	-
Total library	180,570	139,930	138,465	1,465
Technology				
Supplies, materials, and other	19,810	25,470	25,307	163
Capital outlay	51,720	59,130	58,821	309
Total technology	71,530	84,600	84,128	472
Supervision and direction of instructional staff				
Salaries	91,620	93,330	93,314	16
Benefits	36,320	39,150	39,049	101
Purchased services	3,760	560	420	140
Supplies, materials, and other	850	170	254	(84)
Total supervision and direction of instructional staff	132,550	133,210	133,037	173
Total instructional staff	464,650	435,100	427,791	7,309
General administration				
Board of education				
Salaries	4,000	4,000	4,060	(60)
Purchased services	78,000	72,520	61,507	11,013
Supplies, materials, and other	9,700	12,030	13,700	(1,670)
Capital outlay	-	2,720	1,344	1,376
Total board of education	91,700	91,270	80,611	10,659
Executive administration				
Salaries	151,250	153,440	149,781	3,659
Benefits	63,060	71,610	71,139	471
Purchased services	3,700	3,390	2,199	1,191
Supplies, materials, and other	4,000	4,510	3,049	1,461
Total executive administration	222,010	232,950	226,168	6,782
Total general administration	313,710	324,220	306,779	17,441

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
SUPPORTING SERVICES - CONTINUED				
School administration				
Salaries	\$ 820,470	\$ 829,130	\$ 821,805	\$ 7,325
Benefits	351,360	369,260	365,067	4,193
Purchased services	13,750	13,100	8,358	4,742
Supplies, materials, and other	4,940	2,880	2,269	611
Total school administration	1,190,520	1,214,370	1,197,499	16,871
Business services				
Fiscal services				
Salaries	175,200	177,100	176,914	186
Benefits	87,960	83,760	82,942	818
Purchased services	6,450	7,850	7,069	781
Supplies, materials, and other	6,650	5,650	3,503	2,147
Capital outlay	-	-	-	-0-
Total fiscal services	276,260	274,360	270,428	3,932
Other fiscal services				
Purchased services	71,210	65,280	65,255	5
Other	166,800	70,420	66,274	4,146
Total other fiscal services	238,010	135,680	131,529	4,151
Total business services	514,270	410,040	401,957	8,083
Pupil transportation				
Salaries	475,820	488,560	482,219	6,341
Benefits	315,320	329,920	322,471	7,449
Purchased services	17,170	18,090	16,168	1,922
Supplies, materials, and other	248,200	266,390	258,263	8,127
Capital outlay	-	109,400	109,400	-0-
Total pupil transportation	1,056,510	1,212,360	1,188,521	23,839
Operations and maintenance				
Salaries	625,290	639,490	637,737	1,753
Benefits	385,420	413,470	413,216	254
Purchased services	56,070	54,300	44,963	9,337
Supplies, materials, and other	680,460	653,450	604,793	48,657
Capital outlay	18,600	14,100	7,830	6,270
Total operations and maintenance	1,765,840	1,774,810	1,708,539	66,271

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
SUPPORTING SERVICES - CONTINUED				
Support services technology				
Salaries	\$ 59,910	\$ 61,110	\$ 60,853	\$ 257
Benefits	33,150	34,600	33,431	1,169
Purchased services	26,010	29,950	27,040	2,910
Capital outlay	4,000	4,690	4,682	8
Total support services technology	123,070	130,350	126,006	4,344
TOTAL SUPPORTING SERVICES	6,348,520	6,402,830	6,239,939	162,891
COMMUNITY SERVICES				
Child care				
Salaries	15,900	16,330	16,323	7
Benefits	3,980	4,040	4,019	21
Supplies, materials, and other	1,200	1,200	1,161	39
Total child care	21,080	21,570	21,503	67
Community activities				
Purchased services	-	1,350	1,200	150
TOTAL COMMUNITY SERVICES	21,080	22,920	22,703	217
FACILITIES SERVICES				
Site acquisition				
Capital outlay	-	4,820	4,817	3
Building improvement				
Capital outlay	30,190	6,960	4,070	2,890
TOTAL FACILITIES SERVICES	30,190	11,780	8,887	2,893
OTHER FINANCING USES				
Transfers to other funds	377,330	543,000	543,000	-0-
Other	118,000	19,000	77	18,923
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 19,083,140	\$ 19,289,760	\$ 19,033,930	\$ 255,830

OTHER SUPPLEMENTARY INFORMATION

Tri County Area Schools
Nonmajor Governmental Funds
COMBINING BALANCE SHEET

June 30, 2008

	Special Revenue		Debt
	Food Service	Athletics	1999 Debt
ASSETS			
Cash	\$ 94,762	\$ 7,210	\$ 42,758
Due from other funds	-	-	-
Due from other governmental units	7,832	-	-
Inventory	13,668	-	-
TOTAL ASSETS	\$ 116,262	\$ 7,210	\$ 42,758
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 13,215	\$ 22	\$ -
Due to other funds	15,044	-	-
Deferred revenue	6,153	-	89
TOTAL LIABILITIES	34,412	22	89
FUND BALANCES			
Reserved for			
Inventory	13,668	-	-
Debt service	-	-	42,669
Unreserved			
Undesignated, reported in:			
Special revenue funds	68,182	7,188	-
Capital project funds	-	-	-
TOTAL FUND BALANCES	81,850	7,188	42,669
TOTAL LIABILITIES AND FUND BALANCES	\$ 116,262	\$ 7,210	\$ 42,758

Service		Capital Projects	Total
2003 Bond Refunding	2005 Bond Refunding	Capital Projects	Nonmajor Governmental Funds
\$ 288,749	\$ 83,402	\$ 212,756	\$ 729,637
-	-	260,000	260,000
-	-	-	7,832
-	-	-	13,668
<u>\$ 288,749</u>	<u>\$ 83,402</u>	<u>\$ 472,756</u>	<u>\$ 1,011,137</u>
\$ -	\$ -	\$ -	\$ 13,237
-	-	-	15,044
217	-	-	6,459
217	-0-	-0-	34,740
-	-	-	13,668
288,532	83,402	-	414,603
-	-	-	75,370
-	-	472,756	472,756
288,532	83,402	472,756	976,397
<u>\$ 288,749</u>	<u>\$ 83,402</u>	<u>\$ 472,756</u>	<u>\$ 1,011,137</u>

Tri County Area Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue		Debt
	Food Service	Athletics	1999 Debt
REVENUES			
Local sources	\$ 299,776	\$ 83,825	\$ 170,181
State sources	23,738	-	-
Federal sources	414,140	-	-
TOTAL REVENUES	737,654	83,825	170,181
EXPENDITURES			
Current			
Food service activities	740,563	-	-
Athletic activities	-	366,970	-
Capital outlay	27,027	-	-
Debt service			
Principal retirement	-	-	170,000
Interest, fiscal and other charges	-	-	19,490
TOTAL EXPENDITURES	767,590	366,970	189,490
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(29,936)	(283,145)	(19,309)
OTHER FINANCING SOURCES			
Transfers from other funds	-	283,000	-
NET CHANGE IN FUND BALANCES	(29,936)	(145)	(19,309)
Fund balances, beginning of year	111,786	7,333	61,978
Fund balances, end of year	\$ 81,850	\$ 7,188	\$ 42,669

Service		Capital Projects	Total
2003 Bond Refunding	2005 Bond Refunding	Capital Projects	Nonmajor Governmental Funds
\$ 836,295	\$ 126,013	\$ 7,396	\$ 1,523,486
-	-	-	23,738
-	-	-	414,140
836,295	126,013	7,396	1,961,364
-	-	-	740,563
-	-	-	366,970
-	-	30,303	57,330
585,000	15,000	-	770,000
255,149	108,522	-	383,161
840,149	123,522	30,303	2,318,024
(3,854)	2,491	(22,907)	(356,660)
-	-	260,000	543,000
(3,854)	2,491	237,093	186,340
292,386	80,911	235,663	790,057
\$ 288,532	\$ 83,402	\$ 472,756	\$ 976,397

Tri County Area Schools

Proprietary Funds - Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2008

	Retirement Payout Fund	Health Insurance Services Fund	Total
ASSETS			
Current assets			
Cash	\$ 548,121	\$ 39,952	\$ 588,073
Due from other funds	212,262	-	212,262
TOTAL ASSETS	760,383	39,952	800,335
LIABILITIES			
Current liabilities			
Accounts payable	-	21,790	21,790
Compensated absences	98,984	-	98,984
Total current liabilities	98,984	21,790	120,774
Noncurrent liabilities			
Compensated absences	661,399	-	661,399
TOTAL LIABILITIES	760,383	21,790	782,173
NET ASSETS			
Unrestricted	\$ -0-	\$ 18,162	\$ 18,162

Tri County Area Schools

Proprietary Funds - Internal Service Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS

Year Ended June 30, 2008

	Retirement Payout Fund	Health Insurance Services Fund	Total
OPERATING REVENUES			
Charges for services	\$ -	\$ 172,095	\$ 172,095
OPERATING EXPENSES			
Fringe benefits	<u>13,974</u>	<u>207,513</u>	<u>221,487</u>
OPERATING LOSS	(13,974)	(35,418)	(49,392)
NONOPERATING REVENUES			
Interest revenue	<u>13,974</u>	<u>1,837</u>	<u>15,811</u>
CHANGE IN NET ASSETS	-0-	(33,581)	(33,581)
Net assets, beginning of year	<u>-</u>	<u>51,743</u>	<u>51,743</u>
Net assets, end of year	<u>\$ -0-</u>	<u>\$ 18,162</u>	<u>\$ 18,162</u>

Tri County Area Schools

Proprietary Funds - Internal Service Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	Retirement Payout Fund	Health Insurance Services Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ -	\$ 172,095	\$ 172,095
Cash received from other funds	18,415	-	18,415
Cash paid for employee and retiree benefits	-	(207,834)	(207,834)
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	18,415	(35,739)	(17,324)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	13,974	1,837	15,811
NET INCREASE (DECREASE) IN CASH	32,389	(33,902)	(1,513)
Cash, beginning of year	515,732	73,854	589,586
Cash, end of year	<u>\$ 548,121</u>	<u>\$ 39,952</u>	<u>\$ 588,073</u>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	\$ (13,974)	\$ (35,418)	\$ (49,392)
Adjustments to reconcile operating loss to cash provided (used) by operating activities			
(Decrease) in accounts payable	-	(321)	(321)
Decrease in due from other funds	111,796	-	111,796
(Decrease) in compensated absences	(79,407)	-	(79,407)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 18,415</u>	<u>\$ (35,739)</u>	<u>\$ (17,324)</u>

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2008, which collectively comprise Tri County Area Schools' basic financial statements and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri County Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri County Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tri County Area Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri County Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education of Tri County Area Schools, others within the District, and the Federal awarding agencies and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 12, 2008

Tri County Area Schools
SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)

June 30, 2008

Tri County Area Schools

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June 30, 2008

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Tri County Area Schools
Sand Lake, Michigan

Compliance

We have audited the compliance of Tri County Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended June 30, 2008. Tri County Area Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Tri County Area Schools' management. Our responsibility is to express an opinion on Tri County Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Tri County Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Tri County Area Schools' compliance with those requirements.

In our opinion, Tri County Area Schools complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending June 30, 2008.

Internal Control Over Compliance

The management of Tri County Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Tri County Area Schools' internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tri County Area Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated September 12, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Tri County Area Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education of Tri County Area Schools, others within the District, the pass-through entities, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 12, 2008

Tri County Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
E.S.E.A. Title I	84.010		
2005-06 Carryover - Part A		0615300607	\$ 2,815
2006-07 Regular - Part A		0715300607	281,573
2007-08 Regular - Part A		081530008	<u>277,841</u>
			562,229
Service Provider Self Review	84.027		
2007-08		0804400708	4,500
Title V	84.298		
2006-07		0602500607	958
2007-08		0802500708	<u>987</u>
			1,945
Technology Literacy Challenge Grants	84.318		
2006-07 Ed Tech - Formula Grant		0642900607	1,570
2006-07 Ed Tech - Formula Grant		0742900607	2,890
2007-08 Ed Tech - Formula Grant		0842900708	<u>2,404</u>
			6,864
Improving Teacher Quality	84.367		
2006-07		0605200607	20,032
2006-07		0505200405	118,311
2007-08		0805200708	<u>99,051</u>
			237,394
Passed Through State Department of Education and Kent ISD			
Drug-Free Program	84.186		
2007-08		0828600607	6,432
Passed Through State Department of Education and Traverse Bay Area ISD			
Learning Without Limitations	84.318		
2007-08		N/A	<u>2,000</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			821,364

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Restated</u> <u>Balance</u> <u>July 1, 2007</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2008</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 2,815	\$ 2,815	\$ 2,815	\$ -	\$ -0-
259,987	259,987	259,987	-	-0-
-	-	142,419	272,483	130,064
262,802	262,802	405,221	272,483	130,064
-	-	1,064	2,776	1,712
958	958	958	-	-0-
-	-	-	987	987
958	958	958	987	987
1,570	1,570	1,570	-	-0-
2,828	2,828	2,828	-	-0-
-	-	-	988	988
4,398	4,398	4,398	988	988
20,032	20,032	20,032	-	-0-
118,311	59,368	84,387	25,019	-0-
-	-	16,489	50,519	34,030
138,343	79,400	120,908	75,538	34,030
-	-	3,290	3,290	-0-
-	-	2,000	2,000	-0-
406,501	347,558	537,839	358,062	167,781

Tri County Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Program	10.553	(e)(4)	
2006-07		071970	\$ 72,301
2007-08		081970	<u>80,215</u>
			152,516
National School Lunch Program	10.555	(e)(4)	
2006-07		071950, 071960	255,047
2007-08		081950, 081960	<u>256,372</u>
			511,419
Summer Food Service Program	10.559	(e)(4)	
2007-08		080900	3,739
Food Donation (c)	10.550		
Entitlement commodities		59080	32,573
Bonus commodities		59080	<u>2,682</u>
			<u>35,255</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>702,929</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,524,293</u>

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Restated</u> <u>Balance</u> <u>July 1, 2007</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2008</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 65,160	\$ 372	\$ 7,888	\$ 7,516	\$ -0-
-	-	80,215	80,215	-0-
65,160	372	88,103	87,731	-0-
224,004	915	31,958	31,043	-0-
-	-	256,372	256,372	-0-
224,004	915	288,330	287,415	-0-
-	-0-	225	3,739	3,514
-	-	32,573	32,573 ^(a)	-0-
-	-	2,682	2,682 ^(a)	-0-
-0-	-0-	35,255	35,255	-0-
289,164	1,287	411,913	414,140	3,514
<u>\$ 695,665</u>	<u>\$ 348,845</u>	<u>\$ 949,752</u>	<u>\$ 772,202 ^(b)</u>	<u>\$ 171,295</u>
		(d)	(g)	

Tri County Area Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Tri County Area Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports except as noted below. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the payment amounts reflected in the Grants Section Auditors Report and the Grant Auditor Report combined, less the receipt adjustments for grants that overlapped from years prior to 07/08 as follows:

<u>Grant #</u>	<u>Cumulative Payments Per MDE Report</u>	<u>Less: Prior Year Receipts</u>	<u>Less: Difference between Cash Received and Reported</u>	<u>Cash Receipts Per Current SEFA</u>
0602500607	\$ 2,385	\$ (1,427)	\$ -	\$ 958
0642900607 & 0742900607	13,417	(7,293)	(1,726)	4,398

- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Reconciliation between total revenues from Federal sources per financial statements and Federal expenditures per the schedule is as follows:

Federal Revenue per Financial Statements	\$ 782,118
Less: Federal Revenue not subject to Single Audit	(9,916)
Federal Expenditures per schedule	<u>\$ 772,202</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kinnovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Pariter, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools, Michigan as of and for the year ended June 30, 2008, and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri County Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri County Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tri County Area Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri County Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education of Tri County Area Schools, others within the District, the pass through entities, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 12, 2008

Tri County Area Schools

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

_____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553, 10.555, 10.559

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Tri County Area Schools
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

There were no findings disclosed for the past two years.